

**Southeast Kansas Mental Health Center**

**Audit Report & Financial Statements**

**December 31, 2015**

# SOUTHEAST KANSAS MENTAL HEALTH CENTER

For the Year Ended  
December 31, 2015  
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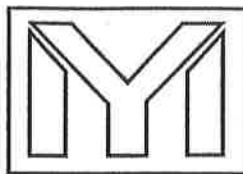
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## YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS  
American Institute of Certified Public Accountants  
Kansas Society of Certified Public Accountants  
An Independent C.P.A. Firm  
Independent Auditors' Report

Board of Directors  
Southeast Kansas Mental Health Center  
1106 S. 9<sup>th</sup> Street  
Humboldt, KS 66748

### Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Kansas Mental Health Center, a Not-for-Profit Entity, which comprise the statement of net assets as of December 31, 2015, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis net assets of Southeast Kansas Mental Health Center as of December 31, 2015, and the changes in modified cash basis net assets, and its cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeast Kansas Mental Health Center's basic financial statements. The *schedule of expenditures of awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of expenditures of awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of expenditures of awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017 on our consideration of Southeast Kansas Mental Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Kansas Mental Health Center's internal control over financial reporting and compliance.

  
Yerkes & Michels, CPA, LLC  
Independence, Kansas

April 25, 2017

SOUTHEAST KANSAS MENTAL HEALTH CENTER

Statement of Net Assets

December 31, 2015

ASSETS

Current Assets:

Cash (Notes 1 and 2)	\$ 2,717,691.46
Accounts receivable - net (Note 3)	456,364.14
Prepaid expenses	191,880.58
Rental Deposits	<u>620.00</u>

Total Current Assets	3,366,556.18
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Property and Equipment - net (Note 4)	<u>618,588.70</u>
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TOTAL ASSETS	<u><u>\$ 3,985,144.88</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Deferred revenue	\$ 4,000.00
Accrued payroll taxes payable	427.10
Accrued wages	103,704.53
Employee Leave Payable (Note 10)	301,676.68
Accounts Payable	<u>96,941.90</u>

Total Current Liabilities	<u>506,750.21</u>
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TOTAL LIABILITIES	<u>506,750.21</u>
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Net Assets (Note 5)

Unrestricted Net Assets	3,416,403.17
Temporarily Restricted Net Assets (Note 5)	<u>61,991.50</u>

Total Net Assets	<u>3,478,394.67</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,985,144.88</u></u>
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The notes to the financial statements are an integral part of this statement.

# SOUTHEAST KANSAS MENTAL HEALTH CENTER

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Year Ended December 31, 2015

Changes in unrestricted net assets:

Operating revenues

County mill levy	\$ 479,731.73
Local funding	19,583.78
State aid	251,423.02
Service fees	5,909,682.16
Health Home fees	1,121,204.01
MHRS Contract	477,240.52
Grant revenue	63,136.78
Miscellaneous revenue	156,755.21
Total operating revenues	<u>8,478,757.21</u>

Operating expenses:

Mental Health	3,256,825.22
Case Management	3,954,445.25
Health Home	828,946.95
Chemical Abuse	235,587.22
General and Administrative	89,255.28
	<u>8,365,059.92</u>

Total operating expenses	<u>8,365,059.92</u>
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Operating income (loss)	113,697.29
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Non-operating revenues (expenses)

Unrestricted Contributions	705.00
Interest Revenue	3,476.56
Gain on disposal of assets	14,000.00
	<u>14,000.00</u>

Total non-operating revenues (expenses)	18,181.56
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Net assets released from restrictions (Note 5)

Satisfaction of program restrictions	<u>19,471.80</u>
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Total net assets released from restrictions	<u>19,471.80</u>
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Change in unrestricted net assets	<u>151,350.65</u>
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Changes in temporarily restricted net assets:

Net assets released from restrictions (Note 5)	<u>(19,471.80)</u>
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Decrease in temporarily restricted net assets	<u>(19,471.80)</u>
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Change in net assets	131,878.85
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Net assets at beginning of year	<u>3,346,515.82</u>
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Net Assets - End of Year	<u><u>\$ 3,478,394.67</u></u>
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The notes to the financial statements are an integral part of this statement.

# SOUTHEAST KANSAS MENTAL HEALTH CENTER

## Statement of Cash Flows

For the Year Ended December 31, 2015

Cash flows from operating activities:		
Change in net assets		\$ 131,878.85
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	88,627.78	
Gain on sale of equipment	(14,000.00)	
Decrease in accounts receivable	126,946.48	
(Increase) in prepaid expenses	(4,945.28)	
Increase in accounts payable	17,471.83	
(Decrease) in deferred revenue	(30,000.00)	
(Decrease) in payroll taxes payable	(1,861.16)	
Increase in accrued wages	9,084.88	
Increase in accrued expenses	44,051.83	
	<hr/>	235,376.36
Net cash provided by operating activities		<hr/> 367,255.21
Cash flows from investing activities:		
Purchase of equipment	(42,074.05)	
Purchase of real property	(67,502.19)	
Proceeds from sale of equipment	14,000.00	
	<hr/>	
Net cash (used) by investing activities		(95,576.24)
Cash flows from financing activities:		
	<hr/>	
Net cash (used) by financing activities		-
Net increase / (decrease) in cash		<hr/> 271,678.97
Cash at beginning of year		<hr/> 2,446,012.49
Cash and at end of year		<hr/> <hr/> \$ 2,717,691.46

Note: During the year, no interest expense was incurred. No funds were expended for the purpose of income taxes; also, see Note 1.

The notes to the financial statements are an integral part of this statement.

Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities** – The Southeast Kansas Mental Health Center (Center) is a not-for-profit, quasi-municipality, and multi-county community mental health center. The Center was established September 12, 1961 by the counties of Allen, Anderson, Bourbon, Linn, Neosho, and Woodson under K.S.A. 19-4001. These counties are also the service area of the Center. Administrative offices are located in Iola and Humboldt Kansas with additional offices in Chanute, Fort Scott, Garnett, Pleasanton, and Yates Center. The mission of the Center is to provide, advocate, and coordinate quality mental health care, services and programs for people in its service area.

**Basis of Accounting** – The financial statements are presented based on the modified cash basis of accounting. Financial statements are in accordance with accounting standards generally accepted in the United States of America and subject to Governmental Accounting Standards with one exception, the Center does not follow GASB 68 Accounting and Financial Reporting for Pensions. Therefore, the net pension liability is not reflected in their financial statements. Also, see Note 11.

**Cash and cash equivalents** – The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Contributions** - Contributions received are considered to be available for use unless specifically restricted by the donor. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded at fair value, which is net of estimated uncollectible amounts. The Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Center's policy to record temporarily restricted contributions, as well as donor-restricted income earned on permanently restricted net assets, received and expended in the same accounting period in the unrestricted net asset class. The Center reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Such assets are recorded at fair value at the date of donation.

**Contributions Receivable** – Contributions receivable are stated at estimated fair market value. There were no contribution receivables at December 31, 2015.

**Income Taxes** – The Center is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). The organization is not classified as a private foundation. There was no income tax expense for the year 2015. 2013, 2014, and 2015 tax years are still open for examination.

**Functional allocation of expenses** – Functional expenses have been allocated between program services, general and administrative services, and fundraising expenses based on management's estimate of personnel time, space, and resources utilized for the various activities.

**Advertising Costs** – The Center has elected to expense all advertising costs when incurred.



Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Reporting Entity – The Center's financial statements include the accounts of all the Center's operations. Membership of the Center is comprised of the counties Allen, Anderson, Bourbon, Linn, Neosho, and Woodson counties. Board members of the Center are appointed by the commissioners of each respective county. Based on the criteria in GASB 61, there are no component units to be included in the Center's financial statements.

NOTE 2 – CASH

At year-end the carrying amount of the Center's deposits was \$ 2,716,966.46. The bank balance totaled \$ 2,736,403.07. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The Center had no investments as of December 31, 2015. FDIC coverage secured \$ 796,252.48 of the Center's deposits, and \$ 1,940,150.59 was collateralized by pledged securities held by the pledging financial institution's agents in the Center's name.

The Kansas Department for Aging and Disability Services requires an explanation if the Center's cash and cash equivalents at year end are greater than six months average operating expense for the previous year. The balance as stated in the previous paragraph is less than \$3,657,327.49 which is the six month average of expenditures for the year ended December 31, 2014.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are presented at estimated book value, and are presented net of a reserve for uncollectible accounts totaling \$ 2,403,156.65 as of December 31, 2015. The reserve is calculated based the total of actual accounts considered uncollectible only after management has exhausted reasonable collection efforts and concluded that additional collection efforts are not cost-effective.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is stated at cost or fair market value at date of donation less provisions for depreciation. Information by major classification follows:

Property and equipment	\$ 990,100.54
Furniture and Fixtures	63,187.61
Buildings	1,520,986.85
Land	<u>212,213.43</u>
Total Cost	\$ 2,786,488.43
Less: Accumulated depreciation	<u>2,167,899.73</u>
Property and equipment – net	\$ <u>618,588.70</u>

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. Lives used are 25 years for buildings and primarily 5 or 10 years for other assets. Amortization of leased assets is included in depreciation. In general, assets costing in excess of \$500 with a useful life greater than one year are capitalized. Depreciation expense for the year ended December 31, 2015 was \$ 88,627.78.

Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

**NOTE 5 – NET ASSETS**

The net asset categories are:

Permanently restricted net assets are those that may never be spent by the Center. At December 31, 2015 there were no permanently restricted net assets.

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event. The Center has three vehicles purchased with matching grants from the U.S. Department of Transportation passed through the Kansas Department of Transportation for which the titles to the vehicles do not pass to the Center until they have been in service for five years. Temporarily restricted net assets consist of the following:

<u>Asset Description</u>	<u>Book Value at December 31, 2015</u>
2013 Dodge Grand Caravan	\$ 9,958.75
2014 Dodge Grand Caravan	25,098.15
2014 Dodge Grand Caravan	26,934.60
	<hr/>
	\$ 61,991.50

Unrestricted net assets are composed of all resources not included in the above categories. Temporarily restricted net assets received and expended in the same year are classified as unrestricted net assets. Also see Note 1.

**NOTE 6 – FUNCTIONAL EXPENSES**

See the schedule on page 11 for functional expenses for the year ended December 31, 2015.

**NOTE 7 – USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the relevant period. Actual results could differ from the estimates.

**NOTE 8 – CONCENTRATION RISK**

Approximately 88% of the Center's revenue is from the State in the form of grants, state aid, contracts, and services fees. Additionally, 20% of the Center's receivables are from the state. If those funds were not available it would have an adverse effect on the Center.

Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

NOTE 9 – DATE OF MANAGEMENT’S REVIEW

Subsequent events were evaluated through the date of financial statement issuance, April 25, 2017.

NOTE 10 – COMPENSATED ABSENCES

The Center’s policy regarding paid time off (PTO) is that PTO may not accumulate in excess of the total amount allowed for twelve months, unless a period of extension is granted by the Executive Director. For employees employed before November 20, 2006, PTO is earned by all regular full-time employees at the rate of 15 days per year. After five years of continuous employment, the annual leave is 18 working days. After 10 years of continuous employment, annual leave is 21 working days. After 15 year of continuous employment, the annual leave is 23 working days. For employees employed after November 20, 2006, PTO is earned by all regular full-time employees at the rate of 10 days per year. After 5 years of continuous employment, annual leave is 13 working days. After 10 years of continuous employment, the annual leave is 19 working days. Employee leave has been accrued and included in the accompanying financial statements. As of December 31, 2015 the balance in accrued employee leave is \$301,676.68.

The Center’s policy regarding short term absence time (STAT) is that STAT may not accumulate to more than 960 hours. At the end of the calendar year any hours over 960 are paid at a rate of 1 hour for every 2 hours excess STAT. STAT is earned by all full-time employees at the rate of twelve hours per month. The Center’s management has determined that the potential liability at December 31, 2015 is \$1,008,713.94; however, as STAT is not payable upon termination and the use of STAT is simply a substitute of payroll and not in addition to expected payroll expenses, this estimated liability is not accrued in the financial statements.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

*Plan description.* The Center participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publically available financial report that includes financial statements and required supplementary information. KPERS’ financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at [www.kpers.org](http://www.kpers.org) or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

*Contributions.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS

Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

NOTE 11 - DEFINED BENEFIT PENSION PLAN (cont'd)

member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1 and KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for Death and Disability Program) and the statutory contribution rate was 9.48% for the fiscal year ended December 31, 2015. Contributions to the pension plan from the Center were \$403,869.73 for the year ended December 31, 2015.

*Net Pension Liability*

At December 31, 2015, the Center's proportionate share of the collective net pension liability reported by KPERS was \$3,188,321. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The Center's proportion of the net pension liability was based on the ratio of the Center's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Based on the Center's financial statements being presented in the modified cash basis of accounting, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at [www.kpers.org](http://www.kpers.org) or can be obtained as described above.

NOTE 13 – CONTINGENCIES

The Center receives a substantial amount of fees through third-part reimbursements. These amounts are subject to audits by the third-party for past costs and retroactive adjustment of fees received.

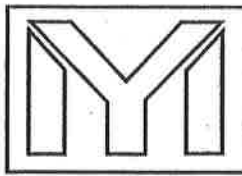
NOTE 14 – SUBSEQUENT EVENTS

On March 27, 2017 the board voted to change the basis of accounting from GAAP to the modified cash basis of accounting with the only exception to GAAP being the omission of recognition of the net pension liability as required by GASB 68. This change is effective for the years ending on or after December 31, 2015. As this standard was only effective for years beginning on or after January 1, 2015, there is no prior period adjustment or correction of error required for the change of accounting.

Southeast Kansas Mental Health Center  
Notes to the Financial Statements  
December 31, 2015

NOTE 6 - FUNCTIONAL EXPENSE SCHEDULE:

	Program Services				Total Program Services	General and Administrative	Total
	Mental Health	Case Management	Health Home	Chemical Abuse			
Salaries	\$ 1,189,297.62	\$ 1,494,479.83	\$ 342,610.31	\$ 110,434.06	\$ 3,136,821.82	\$ 1,563,946.65	\$ 4,700,768.47
Health Insurance	202,499.25	247,436.32	79,394.29	14,716.78	544,046.64	305,394.33	849,440.97
Pension Expense	117,373.77	127,111.55	34,909.12	11,056.33	290,450.77	160,501.88	450,952.65
Payroll Taxes	87,898.17	111,480.28	24,696.61	8,444.02	232,519.08	114,398.74	346,917.82
Unemployment Taxes	4,583.26	6,088.19	1,361.72	450.25	12,483.42	6,659.77	19,143.19
Advertising & Promotion	149.92	1,616.29	525.21		2,291.42	15,447.22	17,738.64
Board Expenses	-	-			-	664.28	664.28
Client Emergency Expense	1,477.56	3,253.56			4,731.12	-	4,731.12
Depreciation	2,108.13	19,471.80			21,579.93	67,047.85	88,627.78
Dues & Subscriptions	(4,052.00)	438.00			(3,614.00)	18,633.14	15,019.14
Collections Expense	3,233.00	-		283.45	3,516.45	-	3,516.45
Insurance - Workers Comp	6,484.23	8,186.24	1,846.04	593.47	17,109.98	8,401.51	25,511.49
Insurance - Property & General Liability	-	-			-	86,699.32	86,699.32
Legal & Accounting	2,300.00	-			2,300.00	3,154.00	5,454.00
Library Books & Materials	1,171.32	1,389.46		36.20	2,596.98	7,370.98	9,967.96
Postage Expense	16.30	-			16.30	25,839.70	25,856.00
Contract Labor - Other	61,665.42	3,885.00	1,033.90		66,584.32	-	66,584.32
Contract Labor - Janitorial Service	-	-			-	24,959.00	24,959.00
Contract Labor - Psychiatrist	429,806.67	-	133.90		429,940.57	-	429,940.57
Paas Screenings	18,090.00	-			18,090.00	-	18,090.00
Rent Expense	-	9,360.00			9,360.00	25,684.46	35,044.46
Repairs & Maintenance	9,539.49	7,601.52	2,323.44		19,464.45	167,925.42	187,389.87
Staff Recruitment	52,448.49	13,401.20	5,938.57	216.00	72,004.26	10,364.58	82,368.84
Staff & Administrative Training	7,847.74	4,143.19	1,064.74	1,947.05	15,002.72	11,619.17	26,621.89
Supplies	11,402.64	47,618.16	3,068.26	2,560.84	64,649.90	72,074.40	136,724.30
Telephone	8,317.86	13,998.93	6,247.48	20.23	28,584.50	163,211.30	191,795.80
Travel & Meal Reimb	20,014.59	42,635.95	9,754.55	3,211.87	75,616.96	8,687.69	84,304.65
Auto Expenses	15,783.45	191,539.77	614.00		207,937.22	19,338.23	227,275.45
Utilities	-	-			-	58,999.80	58,999.80
Miscellaneous Expense	-	-	50.00		50.00	6,845.10	6,895.10
Client Successes Expense	222.01	7,164.56			7,386.57	-	7,386.57
Small Assets Purchased	1,121.59	2,607.53	1,040.79		4,769.91	18,484.69	23,254.60
Bad Debt Expense	-	106,415.42			106,415.42	-	106,415.42
Allocated General & Administrative Costs	1,006,024.74	1,483,122.50	312,334.02	81,616.67	2,883,097.93	(2,883,097.93)	-
	<u>\$ 3,256,825.22</u>	<u>\$ 3,954,445.25</u>	<u>\$ 828,946.95</u>	<u>\$ 235,587.22</u>	<u>\$ 8,275,804.64</u>	<u>\$ 89,255.28</u>	<u>\$ 8,365,059.92</u>



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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

#### Independent Auditors' Report

Board of Directors  
Southeast Kansas Mental Health Center  
1106 S. 9<sup>th</sup> Street  
Humboldt, KS 66748

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southeast Kansas Mental Health Center, which comprise the statement of net assets as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying *schedule of findings and responses* that we consider to be a significant deficiency [Finding 2015-001].

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
YERKES & MICHELS, CPA, LLC  
Independence, KS

April 25, 2017

SOUTHEAST KANSAS MENTAL HEALTH CENTER  
SCHEDULE OF EXPENDITURES OF AWARDS  
For the Year Ended December 31, 2015

<u>Agency:</u>	<u>Pass-through identifying number</u>	<u>Award Fiscal Year End</u>	<u>State Award or CFDA #</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>				
Passed through the Kansas Dept. for Aging and Disability Services:				
Mental Health Block Grant	MHRC 15-025	June 30, 2015	93.958	\$ 15,421.50
Passed through the Kansas Dept. of Health and Environment				
Home Visiting Development Grant	HRSA 15-102	September 30, 2017	93.505	40,881.69
Total US Dept of Health and Human Services				<u>56,303.19</u>
<b>Kansas Department for Aging and Disability Services (KDADS)</b>				
State Aid	MHRC 15-025	June 30, 2015	State	125,711.50
State Aid	MHRC 16-025	June 30, 2016	State	125,711.50
Mental Health Reform	MHRC 15-025	June 30, 2015	State	108,936.50
Mental Health Reform	MHRC 16-025	June 30, 2016	State	108,936.50
Governor's Mental Health Initiative	MHRC 15-025	June 30, 2015	State	71,506.00
Governor's Mental Health Initiative	MHRC 16-025	June 30, 2016	State	165,667.00
Passed through Four County Mental Health				
Mental Health Reform		June 30, 2015	State	89,459.50
Mental Health Reform		June 30, 2016	State	18,469.50
Administered by Value Options				
Substance Abuse and Treatment for Recovery	ADT 05-02-16	June 30, 2016	State	<u>25,930.93</u>
Total KDADS - State Awards				<u>840,328.93</u>
<b>Kansas Department of Transportation (KDOT)</b>				
State Operating Grant		December 31, 2015	State	<u>6,000.00</u>
Total KDOT - State Awards				<u>6,000.00</u>
<b>TOTAL EXPENDITURES OF AWARDS</b>				<u><u>\$ 902,632.12</u></u>



# SOUTHEAST KANSAS MENTAL HEALTH CENTER

## SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2015

### Section I - Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified?   X   yes        none reported

Noncompliance material to financial statements noted?

       yes   X   no

### Section II – Financial Statement Findings

#### Finding 2015-001

Criteria: AU-C section 315 defines internal control as a process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265 further explains that evidence of ineffective aspects of the control environment, such as indications that the significant transactions in which management is financially interested are not being appropriately scrutinized by those charge with governance and inadequate segregation of duties within a significant process may be a significant deficiency in internal controls over financial reporting.

Statement of Condition: Currently, signed checks are being stuffed into envelopes by the same individual in charge of the recording function for expenditures and accounts payable. This creates a lack of segregation of duties as the same individual has both recording and custody functions in the area of expenditures. The primary mitigating control over this lack of segregation would be the reconciliation of the bank accounts and the review of this reconciliation. However, the only account being reconciled is operating checking account. Additionally, the bank reconciliations are not being reviewed. The individual preparing the bank reconciliations has the ability to record expenditure related journal entries and to prepare checks. It was also noted that journal entries are not being reviewed and approved by a separate individual to help further the segregation of duties.

## SOUTHEAST KANSAS MENTAL HEALTH CENTER

### SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2015

**Context:** All bank reconciliations were requested and reviewed. Only one account had actual reconciliations performed and documented and no review of the reconciliations was noted. Additionally, based on inquiry with Center staff, current procedures stipulate that the same individual preparing checks is also stuffing those checks after the checks are signed. A sample of journal entries was reviewed to test for reasonableness and proper approval and no approval was documented.

**Effect of Condition:** The lack of segregation of duties creates the means and opportunity necessary for a motivated employee to misappropriate funds.

**Cause of Condition:** The Center has not designed nor implemented an adequate system of control regarding to both properly segregate duties and to mitigate higher areas of risk.

**Recommendations:** An individual who is does not have the ability to prepare checks or journal entries should be the only individual given custody of signed checks. Additionally, all bank accounts should be reconciled and those reconciliations should be reviewed by an individual who does not have recording or custody responsibilities with regards to monetary transactions. The review should be documented. Also, all journal entries should be reviewed and approved by an individual with the knowledge to understand the effect of the entries and someone that is not involved with financial recording functions. This review should also be documented.

**View of responsible officials and planned corrective actions:** Management concurs with the finding. A separate individual will be in charge of stuffing envelopes with checks after they are signed. Bank reconciliations will be performed for all cash accounts, and those reconciliations will be reviewed in a timely manner by the Executive Director and the review will be documented. Additionally, journal entries will be reviewed and approved by the Executive Director and the review will be documented.

**SOUTHEAST KANSAS MENTAL HEALTH CENTER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the Year Ended December 31, 2015**

There are no unresolved prior year audit findings.